

pays the remaining \$112,000 using general corporate funds.

(6) Assume the same facts as 9904.412-60(d)(5), except that by the time Contractor Q receives its actuarial valuation it has paid retirement benefits equalling \$288,000 from funding agency assets. The contractor has made deposits to the funding agency equal to the tax complement of the \$500,000 assignable pension cost for the period. Pursuant to 9904.412-50(d)(2)(ii)(B), the assignable \$500,000 shall be reduced by the \$50,000 (\$288,000—\$238,000) of benefits paid from the funding agency in excess of the permitted \$238,000, unless the contractor makes a deposit to replace the \$50,000 inadvertently drawn from the funding agency. If this corrective action is not taken within the time permitted by 9904.412-50(d)(4), Contractor Q shall allocate only \$450,000 (\$500,000—\$50,000) to final cost objectives. Furthermore, the \$50,000, which was thereby attributed to benefit payments instead of funding, must be separately identified and maintained in accordance with 9904.412-50(a)(2).

(7) Contractor R has a nonqualified defined-benefit plan that meets the criteria of 9904.412-50(c)(3). For 1996, the funding agency balance was \$1,250,000 and the accumulated value of permitted unfunded accruals was \$600,000. During 1996 the earnings and appreciation on the assets of the funding agency equalled \$125,000, benefit payments to participants totalled \$300,000, and administrative expenses were \$60,000. All transactions occurred on the first day of the period. In accordance with 9904.412-50(d)(2)(ii)(A), \$200,000 of benefits were paid from the funding agency and \$100,000 were paid directly from corporate assets. Pension cost of \$400,000 was assigned to 1996. Based on the current corporate tax rate of 35%, \$260,000 ($\$400,000 \times (1-35\%)$) was deposited into the funding agency at the beginning of 1996. For 1997 the funding agency balance is \$1,375,000 ($\$1,250,000 + \$260,000 + \$125,000 - \$200,000 - \$60,000$). The actual annual earnings rate of the funding agency was 10% for 1996. Pursuant to 9904.412-50(d)(2)(iii), the accumulated value of permitted unfunded accruals is updated from 1996 to 1997 by:

(i) adding \$140,000 ($35\% \times \$400,000$),

which is the unfunded portion of the assigned cost; (ii) subtracting the \$100,000 of benefits paid directly by the contractor; and (iii) increasing the value of the assets by \$64,000 for imputed earnings at 10% ($10\% \times (\$600,000 + \$140,000 - \$100,000)$). The accumulated value of permitted unfunded accruals for 1997 is \$704,000 ($\$600,000 + \$140,000 - \$100,000 + \$64,000$).

[60 FR 16544, Mar. 30, 1995]

9904.412-61 Interpretation. [Reserved]

9904.412-62 Exemption.

None for this Standard.

9904.412-63 Effective date.

(a) This Standard is effective as of March 30, 1995.

(b) This Standard shall be followed by each contractor on or after the start of its next cost accounting period beginning after the receipt of a contract or subcontract to which this Standard is applicable.

(c) Contractors with prior CAS-covered contracts with full coverage shall continue to follow the Standard in 9904.412 in effect prior to March 30, 1995, until this Standard, effective March 30, 1995, becomes applicable following receipt of a contract or subcontract to which this Standard applies.

[60 FR 16547, Mar. 30, 1995]

9904.412-64 Transition method.

To be acceptable, any method of transition from compliance with Standard 9904.412 in effect prior to March 30, 1995, to compliance with the Standard effective March 30, 1995, must follow the equitable principle that costs, which have been previously provided for, shall not be redundantly provided for under revised methods. Conversely, costs that have not previously been provided for must be provided for under the revised method. This transition subsection is not intended to qualify for purposes of assignment or allocation, pension costs which have previously been disallowed for reasons other than ERISA tax-deductibility limitations. The sum of all portions of unfunded actuarial liability identified pursuant to Standard 9904.412, effective March 30, 1995, including such portions